BRITISH COLUMBIA

PUBLIC SERVICE PENSION PLAN

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BRITISH COLUMBIA

PUBLIC SERVICE PENSION PLAN

ANNUAL REPORT 1999

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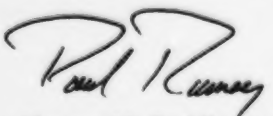
RESPECTFULLY SUBMITTED

The Honourable Garde B. Gardom, Q.C.
Lieutenant Governor
Province of British Columbia

May it please Your Honour:

The undersigned respectfully submits the report of the business done in pursuance of the *Pension (Public Service) Act* during the fiscal year ended March 31, 1999.

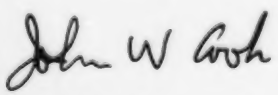


Honourable Paul Ramsey
Minister of Finance and Corporate Relations
October 31, 1999

Honourable Paul Ramsey
Minister of Finance and Corporate Relations

Minister:

I have the honour of presenting you with the report of the business done in pursuance of the *Pension (Public Service) Act* during the fiscal year ended March 31, 1999.



John W. Cook
Chair, Superannuation Commission

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PROFILE

As of March 31, 1999, the members of the Public Service Pension Advisory Board were John Cook, Chair and Superannuation Commissioner; Ed Bodner, BC Government Retired Employees' Association; Andy McColl, Union of Psychiatric Nurses; Diane Wood, BC Government and Service Employees' Union (BCGEU); Doug Hensby, Professional Employees' Association; and Wayne Scale, Bruce Kennedy, Anne Kirkaldy and Suzanne Veit, Government Representatives.

The Superannuation Commissioner administers the plan as Chief Executive Officer for the Superannuation Commission, a division of the British Columbia Ministry of Finance and Corporate Relations.

The Office of the Chief Investment Officer (OCIO), an independent business unit within the Ministry of Finance and Corporate Relations, manages the plan's investments. The OCIO is one of the largest institutional investors in Canada. Each year, the Public Service Pension Advisory Board reviews and approves the plan's investment policies.

The Public Service Pension Plan holds a diversified portfolio of debt and equity investments that facilitates prudent management of risk. Following diversification into equities that began in late 1997–98, the plan holds a mixture of debt investments (money market securities, bonds and mortgages) and equity investments (stocks and real estate) with a market value of $10.3 billion as of March 31, 1999. Despite the poor performance of the Canadian stock market, the Public Service Pension Plan generated a 3.0% return in fiscal 1998–99. The two-year annualized return has been a strong 12.3%.

The Public Service Pension Plan is a contributory defined benefit pension plan. This means the employee's basic pension is guaranteed regardless of the financial health of the plan. Benefits are based on the employee's highest five years of salary, length of service and age at retirement.

Effective January 1, 1998, employees are entitled to a pension with two or more years of pensionable service.

Active membership in the Public Service Pension Plan has grown by over 2% in 1999. The number of pensioners also continues to grow, primarily as a result of the aging of plan members. Today, there are over 56,000 active plan members and over 22,000 pensioners.

MARCH 31, 1999
PUBLIC SERVICE PENSION ADVISORY BOARD MEMBERS

Chair
Superannuation Commission
John W. Cook

Member Representatives
BC Government Retired Employees' Association –
Ed Bodner
Professional Employees' Association –
Doug Hensby
Union of Psychiatric Nurses –
Andy McColl
BC Government and Service Employees' Union (BCGEU) –
Diane Wood

Government Representatives
Bruce Kennedy
Anne Kirkaldy
Wayne Scale
Suzanne Veit

The Public Service Pension Advisory Board continues to challenge the Superannuation Commission to provide high standards in its service delivery to plan members and pensioners.

MESSAGE FROM THE BOARD

I am pleased to present you with the Public Service Pension Plan Annual Report for the fiscal year ending March 31, 1999.

On behalf of the Public Service Pension Advisory Board, I would like to welcome all new members to the Public Service Pension Plan. There are currently over 56,000 active plan members and over 22,000 pensioners.

This year, the plan awarded nearly 1,000 pensions, which represents a 55% decrease over 1998. The decrease reflects the fact that government downsizing and the early retirement incentive program in the previous year resulted in an exceptionally high number of retirements in 1998. Purchases of service continued relatively stable at almost 3,000.

The Public Service Pension Advisory Board continues to challenge the Superannuation Commission to provide high standards in its service delivery to plan members and pensioners. During 1999, the commission has focussed on readying critical systems as part of the government-wide Year 2000 effort. In the fall of 1999, implementation of the commission's new Integrated Pension Administration System also occurred. This system is key to further streamlining of pension processing and service improvement.

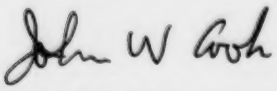
The Public Service Pension Plan is financially sound. The most recent actuarial valuation for March, 1996 showed an actuarial surplus of $222 million for basic benefits. The next actuarial valuation will be as at March 31, 1999, and will be available to report in 2000.

The advisory board continues to focus on communication with plan members as one of its highest priorities. A pensioner newsletter continued in 1999. Also, development work continued towards the implementation of a public web site, which opened in the spring of 1999. Plan members may access general information about their pensions on-line at pensions.gov.bc.ca. The commission continued to develop the series of *Pensionfacts* on various topics and produced a revised retirement kit.

In 1994, pension reform established the Public Service Pension Advisory Board, along with similar pension advisory boards for the other three statutory public sector plans (College, Municipal, and Teachers'). At that time, the boards made a commitment to reform the legislative structure and management of the plans. The government of British Columbia, the four boards and key stakeholder groups have been discussing the management of public sector pension plans for some time and made considerable progress in 1998–99 towards their

pension reform commitment. Those discussions led to a proposal for new legislation — the *Public Sector Pension Plans Act* — which was tabled in the legislature and received royal assent in July 1999. The new legislation will simplify public sector pension plan administration and management. It will also provide a mechanism for public sector pension plan stakeholders — government, employers, unions and plan members — to pursue a joint trustee arrangement if they want to. To make sure that you are informed about pension reform and have an opportunity to express your views, the board sent all active and retired plan members a special booklet on this topic. The booklet is also available through the commission's public web site.

The year under review has been successful for the pension plan, and we made considerable progress in the fiscal year. We anticipate another productive year in 2000.



John Cook, Chair

FINANCIAL AND OPERATIONAL HIGHLIGHTS

INVESTMENTS AS AT MARCH 31, 1999

	1999	1998
Market Value ($ Billions)	$10.3	$10.0
Basic Account Market Value Rates of Return		
Annual	3.0%	22.6%
Five-year Average	11.5%	12.4%
Inflation Account Market Value Rates of Return		
Annual	2.6%	21.9%
Five-year Average	11.1%	12.1%

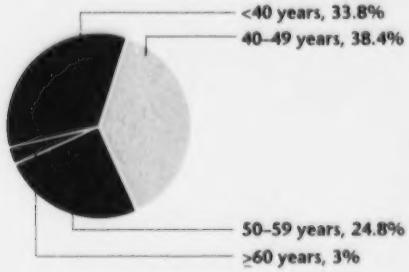
LATEST ACTUARIAL VALUATION–MARCH 31, 1996

($ Millions)

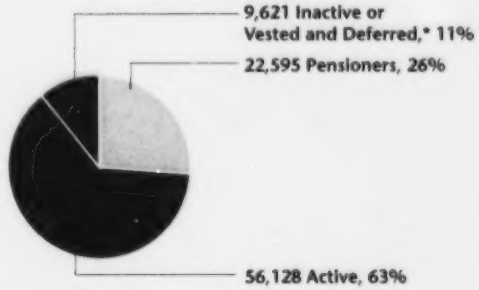
	Basic Pension Benefits Net Surplus (Unfunded)	
	1996	1993
For Funding Purposes (statutory contributions)*	$222	($193)
Ratio of Surplus (Unfunded) Liability to Covered Payroll*	10%	(10%)
Based on Accrued Benefits to March 31	$209	($140)

*Assuming contributions continue at existing statutory rates.

1999 AGE PROFILE OF ACTIVE CONTRIBUTORS

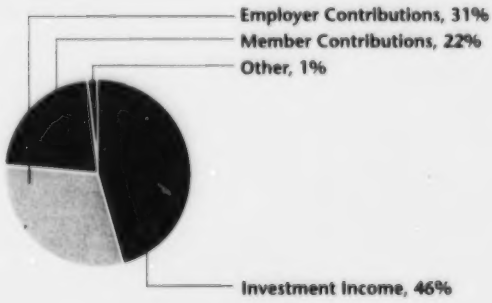


1999 MEMBERSHIP PROFILE

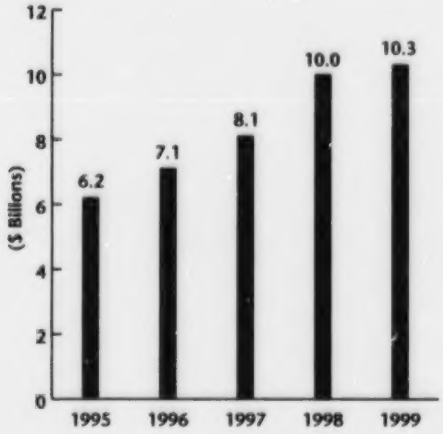


*Members no longer employed, but with money in the plan.

1999 REVENUE



NET ASSETS AVAILABLE FOR BENEFITS AS AT MARCH 31, 1995–1999



FIVE-YEAR SUMMARY STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS (UNAUDITED)

($ Thousands)

For the year ended March 31	1999	1998	1997	1996	1995
Increase in Assets					
Net Investment Income					
Total Investment Income	$296,591	$1,839,825	$955,975	$829,831	$367,608
Investment Management Costs	(11,082)	(10,445)	(6,377)	(4,725)	(2,235)
	285,429	1,829,380	949,598	825,106	365,373
Contributions					
Members	142,225	138,139	139,290	132,088	125,515
Employers	193,632	191,944	197,850	200,044	184,975
Transfers from Other Plans	3,729	9,644	8,728	4,267	6,345
Total Increase in Assets	625,015	2,169,107	1,295,466	1,161,505	682,208
Decrease in Assets					
Pension Benefits	266,864	257,295	225,827	210,950	202,110
Termination Benefits	24,562	40,089	20,914	15,856	13,459
Transfers to Other Plans	530	718	948	242	28
Supplemental Benefits	8,033	7,254	6,495	6,768	1,056
Administration Costs	7,890	7,518	6,102	4,553	5,207
Total Decrease in Assets	307,879	312,874	260,286	238,369	221,860
Increase in Net Assets	317,136	1,856,233	1,035,180	923,136	460,348
Net Assets Available for Benefits at Beginning of Year	9,987,933	8,131,700	7,096,520	6,173,384	5,713,036
Net Assets Available for Benefits at End of Year	$10,305,069	$9,987,933	$8,131,700	$7,096,520	$6,173,384
			As a Percentage of Net Assets		
Pension Administration Costs	0.08	0.08	0.08	0.06	0.08
Investment Management Costs	0.11	0.10	0.08	0.07	0.04

The Public Service Pension Fund is a trust fund where contributions accumulate. These contributions are invested to pay current and future pension benefits.

ROLES AND RESPONSIBILITIES

PUBLIC SERVICE PENSION ADVISORY BOARD

The Public Service Pension Advisory Board makes recommendations to the provincial government regarding, among other things, the *Pension (Public Service) Act* and its regulations, changes in Public Service Pension Plan benefits, funding policy for the plan, contribution rates and the Superannuation Commission's administrative budget for the plan. The board is responsible for preparing the annual report for the Public Service Pension Plan, for reviewing and making recommendations to the Ministry of Finance and Corporate Relations on the plan's investment policy and procedures, and for giving the Superannuation Commissioner direction on the application of the plan's rules. The board has nine members: four member representatives, four government representatives and the Superannuation Commissioner, who acts as board chair.

The board has two committees: a Benefits Committee and a Regulations Committee. Members of the board also sit on interplan committees that deal with matters of common interest to the BC statutory pension plans (Public Service, College, Municipal and Teachers').

SUPERANNUATION COMMISSION

The *Pension (Public Service) Act* and related regulations govern the operations of the Public Service Pension Plan. As Chief Executive Officer for the Superannuation Commission, the Superannuation Commissioner is responsible for administering the act and the Public Service Pension Fund.

The Superannuation Commission is a division of the Ministry of Finance and Corporate Relations. The Minister of Finance and Corporate Relations serves as the trustee for the Public Service Pension Fund. The Public Service Pension Fund is a trust fund where contributions accumulate. These contributions are invested to pay current and future pension benefits.

OFFICE OF THE CHIEF INVESTMENT OFFICER

The Office of the Chief Investment Officer (OCIO) is an independent business unit within the Ministry of Finance and Corporate Relations. The OCIO manages investments for the Public Service Pension Plan. The OCIO administers over $50 billion and is one of the largest institutional investors in the country.

The *Pension (Public Service) Act* requires the Chief Investment Officer to act in the best financial interest of the beneficiaries and in accordance with the pension fund's investment policies. The trustee and the Public Service Pension Advisory Board approve the fund's investment policies and review them regularly.

Despite the poor performance of the Canadian stock market, the Public Service Pension Fund managed to generate a 3.0% return in fiscal 1998–99. The two-year annualized return has been a strong 12.3%.

INVESTMENTS

MESSAGE FROM THE CHIEF INVESTMENT OFFICER

Markets in Review

Last year was one of the most volatile and worrisome years in recent history. It began on an optimistic note as most analysts felt that Asia had weathered the worst of the currency crisis. However, by late spring it became apparent that Asia's economic problems would be much more severe and protracted than first expected.

In mid-August, markets were caught off guard when Russia declared a moratorium on some of its debt obligations. This, combined with other events, led to a reduction in the risk tolerance of investors and a drying up of capital flowing to emerging markets. Concerns about risk also affected developed markets and led to a tightening of credit conditions, falling stock prices and a reduction in liquidity. These conditions resulted in problems for some hedge funds, most notably Long Term Capital Management (LTCM). LTCM was a major player in the derivative market, and its collapse could have put the entire financial system at risk.

Fortunately, there was a dramatic reversal in the fourth quarter of 1998. The U.S. Federal Reserve arranged a bailout for LTCM and cut U.S. interest rates three times in rapid succession. This calmed investors and led to a strong rebound in stock prices. Most markets quickly recovered their losses and resumed an upward trend. Canada, however, was a notable exception, and the TSE 300 Index finished fiscal 1998–99 with a disappointing -11.1% return.

The Public Service Pension Fund holds a diversified portfolio and, despite the poor performance of the Canadian stock market, managed to generate a 3.0% return in fiscal 1998–99. In assessing performance, it is important to note that annual returns can be very date dependent. For example, at the end of the calendar year the fund had a 10.0% return. In addition, we are coming off a strong year; in fiscal 1997–98, the fund generated a 22.6% return. Consequently, the two-year annualized return has been a strong 12.3%.

Initiatives in 1999–2000

There are three major initiatives facing my office in the current year. These are: improving risk management operations, preparing for Y2K and revising our organizational structure.

The volatility of the market last year clearly illustrates the importance of risk management operations. We are in the process of a comprehensive review of our risk management framework to ensure that it will continue to serve our clients and protect their assets. Risk management needs to be integrated into daily business practices and continuously reviewed and improved.

I am pleased to report that our internal systems and those of our major suppliers are Y2K ready. We have done everything practical to prepare for the event, including having a contingency plan. In addition, we are examining how Y2K may affect the companies that we invest in.

In regards to our internal structure, we believe that there is a strong business case for placing investment operations at arms length from government and ensuring that resource decisions are made in the best interest of the funds under administration. We are hopeful that such changes will be made as part of the process of pension reform.

Doug Pearce
Chief Investment Officer
Office of the Chief Investment Officer
Ministry of Finance and Corporate Relations

APPROVED INVESTMENT ASSET MIX

Targets for strategic and short-term allocation of assets must fall within the ranges approved by the trustee, as shown in the table on the right.

For purposes of the asset mix, short-term investments include Canadian government bonds with one- to five-year terms and money market securities.

	Market Value	
Asset Class	**Lower Limit**	**Upper Limit**
Debt	**30%**	**50%**
Short-term	0%	30%
Bonds	20%	50%
Mortgages	0%	10%
Equity	**50%**	**70%**
Canadian Stocks	20%	50%
U.S. Stocks	0%	14%
International Stocks	0%	14%
Real Estate	0%	10%
Private Placements	0%	2%

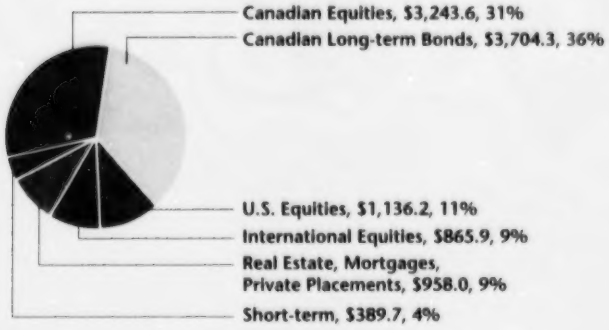
INVESTMENT PORTFOLIO

INVESTMENTS HELD AS AT MARCH 31, 1999

	Market Value	Asset Mix % Market Value
Province of BC Pooled Investment Portfolio Units		
Money Market	$ 87,812,195	1%
Canadian Bonds		
Government	3,195,025,243	31%
Corporate	335,004,233	3%
Short-term (to 5 years)	301,880,875	3%
Canadian Equities		
Indexed	2,374,455,459	23%
Actively Managed	864,996,935	8%
U.S. Equities		
Indexed	730,999,909	7%
Actively Managed	405,225,672	4%
International Equities		
Asia	33,403,905	1%
Europe	325,944,397	3%
Europe, Australia and the Far East	506,514,031	5%
Real Estate	454,267,662	4%
Mortgages	317,057,462	3%
Private Placements	186,714,846	2%
Total Pooled Portfolios	$10,119,302,824	98%
Canadian Real Return Bonds	174,222,883	2%
Canadian Equities	4,190,547	
Total Investments	$10,297,716,254	100%
1998 Comparison	$ 9,989,724,998	

1999 INVESTMENT HOLDINGS (MARKET VALUE)

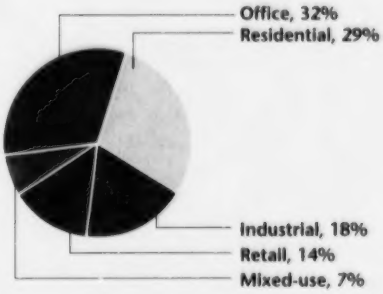
($ Millions)


Canadian Equities, $3,243.6, 31%
Canadian Long-term Bonds, $3,704.3, 36%
U.S. Equities, $1,136.2, 11%
International Equities, $865.9, 9%
Real Estate, Mortgages, Private Placements, $958.0, 9%
Short-term, $389.7, 4%

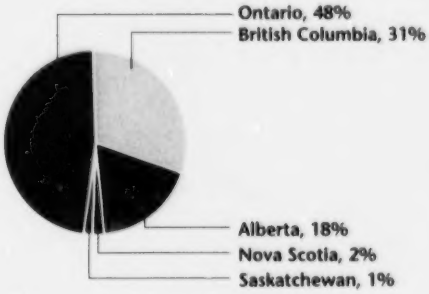
CANADIAN EQUITIES (MARKET VALUE)

U.S. EQUITIES (MARKET VALUE)

REAL ESTATE, BY TYPE

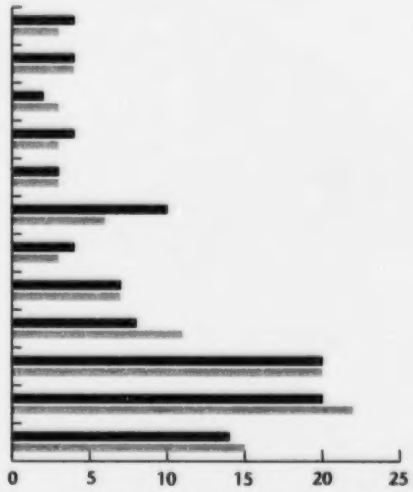


REAL ESTATE, BY LOCATION



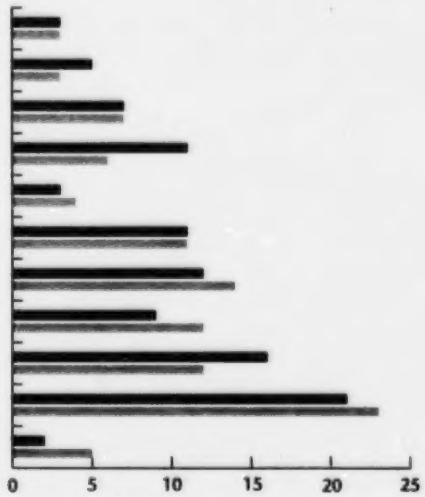
CANADIAN EQUITIES, BY SECTOR

	Indexed	Actively Managed
Conglomerates	4%	3%
Communications and Media	4%	4%
Paper and Forest Products	2%	3%
Gold and Silver	4%	3%
Merchandising	3%	3%
Utilities	10%	6%
Mines and Minerals	4%	3%
Consumer Products	7%	7%
Oil and Gas	8%	11%
Industrial Products	20%	20%
Financial Services	20%	22%
Other	14%	15%

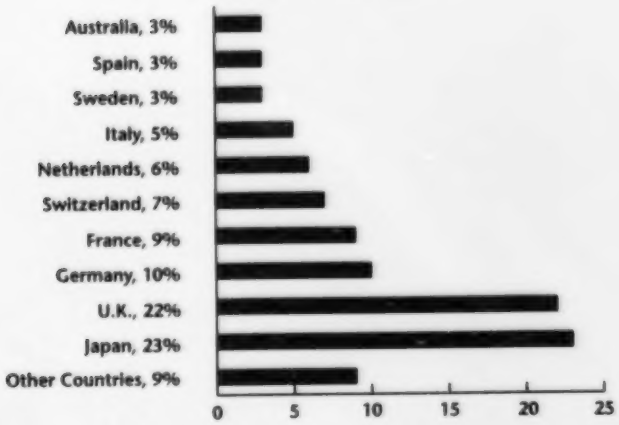


U.S. EQUITIES, BY SECTOR

	Indexed	Actively Managed
Auto and Transport	3%	3%
Integrated Oils	5%	3%
Producer Durables	7%	7%
Utilities	11%	6%
Materials and Processing	3%	4%
Consumer Staples	11%	11%
Health Care	12%	14%
Consumer Discretionary	9%	12%
Financial Services	16%	12%
Technology	21%	23%
Other	2%	5%



INTERNATIONAL EQUITIES



INVESTMENT PERFORMANCE

NET EARNED RATE OF THE FUND

Year	%
1995	11.5
1996	10.5
1997	10.7
1998	12.4
1999	11.5

Rates of return are based on a five-year average.

INVESTMENT PERFORMANCE

MARKET VALUE RATES OF RETURN FOR THE YEAR ENDED MARCH 31, 1999

	Basic Account	Inflation Adjustment Account	1999 Performance Bench Marks	
Five-year Average Rates				
1999	11.5%	11.1%	11.9%	
1998 Comparison	12.4%	12.1%	12.5%	
Annual Rates				
1999	3.0%	2.6%	4.0%	
1998 Comparison	22.6%	21.9%	23.7%	
1999 Annual Rates by Investment Category			1999 Performance Bench Mark Indices	
Short-term				
Money Market	5.3%	5.3%	4.9%	SCM 91-Day T-Bills
Short-term Bonds	5.7%	5.7%	5.6%	RBCB Short-term Government Bonds
Bonds				
Government	7.1%	7.1%	7.1%	SCM Government Universe
Corporate	5.5%	5.5%	6.2%	SCM Corporate Universe
Real Return	–	3.3%	–	
Canadian Equities				
Actively Managed	(10.9%)	(10.9%)	(11.3%)	TSE 300
Indexed				
TSE 300	(10.4%)	(10.4%)	(11.3%)	TSE 300
TSE 100	(11.1%)	(11.1%)		
U.S. Equities				
Actively Managed	19.6%	19.6%	24.1%	R 1000
Indexed	26.3%	26.3%	26.1%	S&P 500
International Equities				
Asia	11.8%	11.6%	17.4%	MSCI Pacific Basin Net
Europe	11.5%	11.8%	11.3%	MSCI Europe Net
Europe, Australia and the Far East	10.9%	10.9%	12.8%	MSCI EAFE Net
Real Estate	12.1%	12.7%	15.8%	R Canadian Property
Mortgages				
Fixed-term	7.1%	7.1%	6.8%	SCM Short-term Bonds + 1%
Construction	7.6%	7.6%	6.2%	SCM Treasury Bills + 1%

Performance Benchmark Indices Abbreviations

SCM = **Scotia Capital MacLeod**
RBCB = **RBC Barra**
MSCI = **Morgan Stanley Capital International**
S&P = **Standard and Poor's**
R = **Russell**
TSE = **Toronto Stock Exchange**

(Source of Annual Rates: Office of the Chief Investment Officer, Ministry of Finance and Corporate Relations)

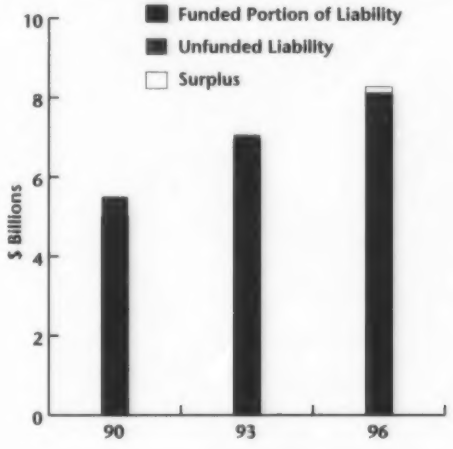
ACTUARIAL VALUATION/ PLAN FUNDING

Every three years, an independent actuary assesses whether or not contribution rates for the plan are sufficient to fund pension benefits. The last assessment evaluated the plan as at March 31, 1996. The next assessment will evaluate the plan as at March 31, 1999. The results will be available for the next annual report in the year 2000.

The valuation considers benefits actually earned to date (accrued benefits) and the benefits a member is likely to earn in the future in return for continuing service.

At the most recent actuarial valuation in 1996, the plan had accumulated a $222 million surplus for basic benefits. (In 1993, the plan had a $193 million unfunded liability.) As a result of the surplus, the plan implemented a $24 million annual reduction in employer contributions, starting April 1, 1996.

FUNDING OF THE TOTAL BASIC BENEFIT LIABILITY



LATEST ACTUARIAL VALUATION – MARCH 31, 1996
BASIC PENSION BENEFITS

($ Millions)

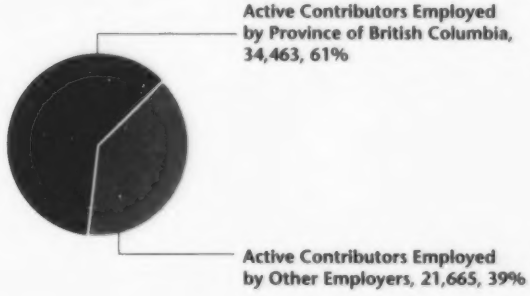
	Basic Pension Benefits Net Surplus (Unfunded)		
	1996	1993	1990
For Funding Purposes (statutory contributions)*	$222	($193)	($438)
Ratio of Surplus (Unfunded) Liability to Covered Payroll*	10%	(10%)	(32%)
Based on Accrued Benefits to March 31	$209	($140)	($347)

*Assuming contributions continue at existing statutory rates.

EMPLOYERS AND PLAN MEMBERSHIP

The Public Service Pension Plan is a defined benefit plan, primarily for employees of the British Columbia provincial government and certain Crown corporations, agencies and institutions. Once an employee qualifies to join the plan or elects to contribute, contributions must continue as long as the employee remains with the employer, or until 35 years of pensionable service have accrued.

CONTRIBUTOR EMPLOYMENT AS AT MARCH 31, 1999


Active Contributors Employed by Province of British Columbia, 34,463, 61%
Active Contributors Employed by Other Employers, 21,665, 39%

PUBLIC SERVICE PENSION PLAN EMPLOYERS

Province of British Columbia
BC Assets and Land Corporation
British Columbia Assessment Authority
British Columbia Buildings Corporation
British Columbia Ferry Corporation
BC Ferry and Marine Workers' Union
British Columbia Government and Service Employees' Union
British Columbia Hazardous Waste Management Corporation
British Columbia Housing Management Commission
British Columbia Institute of Technology
British Columbia Mental Health Society
BC Pavilion Corporation
British Columbia Securities Commission
British Columbia Transit
British Columbia Transportation Financing Authority
British Columbia Treaty Commission
Columbia Power Corporation
Emergency Communications Corporation
Emergency Health Services Commission
Fisheries Renewal BC
Homeowner Protection Office
Industry Training and Apprenticeship Commission
Insurance Corporation of British Columbia
Islands Trust
Liquor Distribution Branch
Oak Bay Lodge Society
Office and Professional Employees' International Union - Local 378
Office of Jobs and Timber Accord Advocate Inc.
Okanagan Valley Tree Fruit Authority Corporation
Pacific Coast Savings Credit Union
Professional Employees' Association
Provincial Capital Commission
Regional Health Boards and Societies (21)
Registered Psychiatric Nurses Association of British Columbia
Science Council of British Columbia
Tillicum and Veterans Care Society (Broadmead Lodge)
Tourism British Columbia
Union of Psychiatric Nurses of British Columbia

MEMBER SERVICES

CONTRIBUTORS AND CONTRIBUTIONS

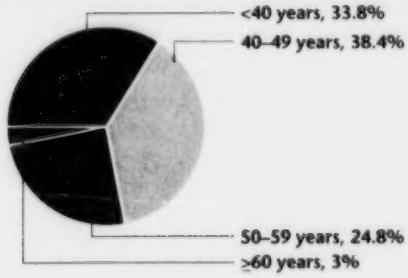
There are three categories of contributors.

- Active–those who are currently contributing, are on a leave or are receiving benefits from an approved salary continuance plan.
- Inactive–those who have terminated their employment with contribution balances on record but who are not eligible for a pension in the future.
- Vested and deferred–those who have terminated their employment and are eligible for a pension in the future. From 1998 onward, the number of vested and deferred members has been adjusted to include inactive members who are active in another BC Family of Plans* pension plan and are likely to have a vested entitlement on the basis of a combined plan.

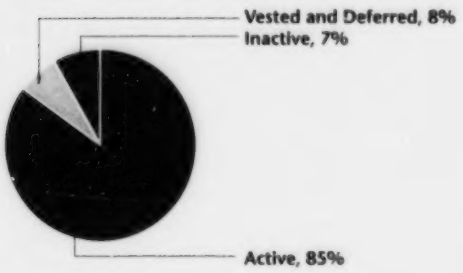
Active membership in the Public Service Pension Plan increased by over 2% in 1999. Today, there are over 56,000 active plan members and 22,000 pensioners.

*Effective October 1, 1999 the BC Family of Plans was replaced by the provisions of the Interplan Pension Transfer Agreement.

1999 AGE PROFILE OF ACTIVE CONTRIBUTORS

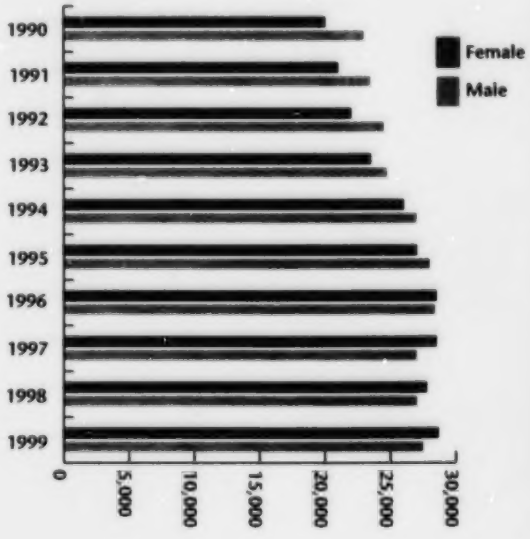


1999 CONTRIBUTOR PROFILE



1999 ACTIVE CONTRIBUTOR PROFILE

ACTIVE CONTRIBUTORS

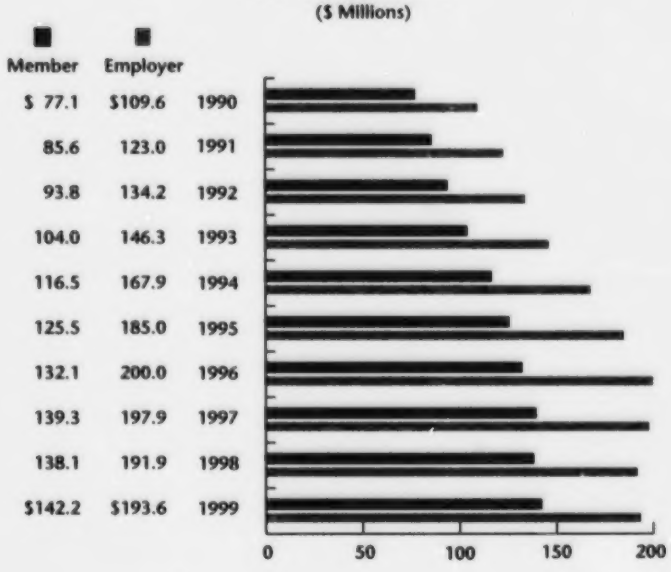


NUMBER OF CONTRIBUTORS

	Active	Inactive	Vested and Deferred	Total
1995	55,535	5,158	2,287	62,980
1996	57,490	5,531	2,300	65,321
1997	57,397	5,843	2,493	65,733
1998	55,020	4,310	4,964	64,294
1999	56,128	4,425	5,196	65,749

CONTRIBUTIONS

($ Millions)



TERMINATION BENEFITS

A member terminating employment could be eligible for one or more of the following benefits:

- a refund of contributions with interest
- a transfer of the commuted value of the pension benefit to a locked-in registered retirement savings plan or a registered pension plan, or
- a deferred pension.

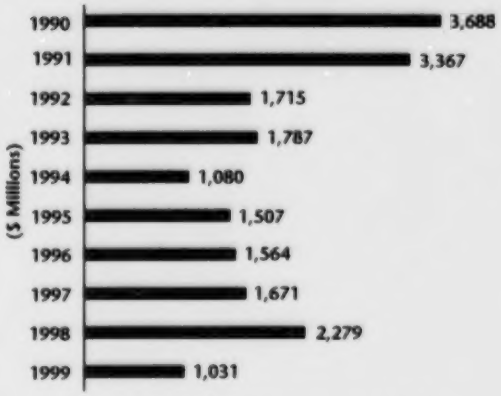
The number of termination benefits paid can vary significantly from year to year, depending on the employment environment. The number of termination benefits paid in 1999 decreased significantly compared to 1998, primarily because government downsizing resulted in an exceptionally high number of terminations in 1998.

Similarly, the value of terminations paid in 1999 decreased in comparison to 1998 because there were significantly fewer terminations in 1999.

If a member leaves the plan and takes a refund of contributions, the refund includes interest. Interest is credited to the member's contribution balance semi-annually and compounds semi-annually. The balance, including interest, is included in the plan member's annual benefit statement.

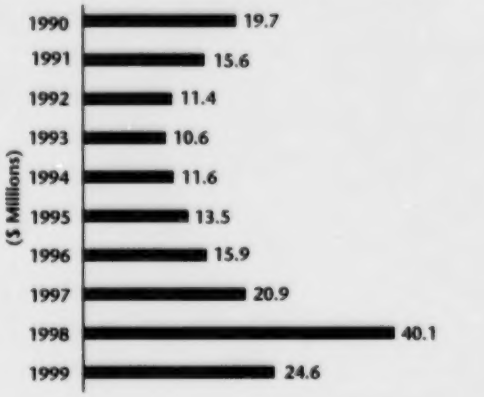
The rate of interest is governed by pension standards and pension plan legislation and is based on average bank rates for five-year personal term deposits.

NUMBER OF TERMINATION BENEFITS PAID



Termination benefits paid include only refunds of contributions and commuted-value payments; deferred pensions are included in pension statistics.

VALUE OF TERMINATION BENEFITS PAID



Termination benefits paid include only refunds of contributions and commuted-value payments; deferred pensions are included in pension statistics.

ANNUAL RATES FOR INTEREST CREDITED TO CONTRIBUTION BALANCES

	Sept.	Mar.
1993/94	5.51%	4.59%
1994/95	7.13%	7.65%
1995/96	6.59%	5.88%
1996/97	5.82%	4.71%
1997/98	4.67%	4.28%
1998/99	4.33%	4.10%

PENSIONS

The number of pensioners remains relatively stable overall. The number of pensions granted in 1999 decreased 55% from the number granted in 1998, but only because early retirement initiatives in the public sector resulted in a higher than normal number of pensions in 1998.

Pensions are paid at the end of each month, starting with whichever of the following comes latest:

- the month following the month in which the plan member becomes eligible
- the month following the month in which the plan member receives the final salary, or
- the month in which the Superannuation Commission receives the member's application.

The plan pays a full month's pension for the month in which a pensioner dies.

PENSIONS 1990–1999

	Public Service			MLA					
	Granted during Year	Pension Terminations	In Force at End of Year	Granted during Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid ($ Millions)	Inflation Supplements Paid ($ Millions)	Total ($ Millions)
1990	646	189	16,400	3	1	80	$136.8	$31.1	$167.9
1991	654	306	16,748	1	1	80	137.2	36.6	173.8
1992	732	276	17,204	20	–	100	139.4	42.0	181.4
1993	696	219	17,681	–	3	97	142.7	47.5	190.2
1994	740	273	18,148	2	3	96	146.3	48.9	195.2
1995	880	343	18,685	1	–	97	152.0	50.1	202.1
1996	1,088	382	19,391	–	1	96	160.7	50.2	210.9
1997	1,321	415	20,297	12*	2	106*	173.0	52.8	225.8
1998	2,178	414	22,061	–	3	103	203.1	54.2	257.3
1999	981	447	22,595	1	2	102	$211.3	$55.6	$266.9

*1997 corrected to include a beneficiary pension to the spouse of an MLA.

The value of a basic pension depends on a number of factors, including the member's age, salary and years of service at retirement.

The table below shows the average asset value ("present value") of pensions granted during the year. The asset value represents approximately how much money it would cost to purchase an average pension provided under the Public Service Pension Plan.

When a Member of the Legislative Assembly receives a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account to the Public Service Pension Fund, which pays the monthly benefit. Additional amounts are transferred into the Public Service Pension Fund each year to pay for related indexing supplements.

TRANSFERS FROM THE MEMBERS OF THE LEGISLATIVE ASSEMBLY SUPERANNUATION ACCOUNT, 1990–1999

($ Thousands)

	Present Value of Pensions Transferred	Inflation Adjustment Contributions Transferred
1990	1,090	28
1991	307	90
1992	9,182	65
1993	–	67
1994	605	98
1995	246	114
1996	–	103
1997	4,687	43
1998	–	25
1999	$ 188	$ 60

PRESENT VALUE OF NORMAL PENSIONS GRANTED APRIL 1, 1998 TO MARCH 31, 1999

Subdivided by Years of Service

Years of Service*	Number of Pensions Granted	Average Annual Salary Base	Average Annual Pension (Single Life Option)	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 yrs	166	$46,000	$ 3,000	$ 44,000	$ 7.3
10 – 14	69	45,000	8,000	112,000	7.7
15 – 19	118	44,000	11,000	161,000	19.0
20 – 24	132	43,000	16,000	225,000	29.7
25 – 29	91	51,000	21,000	310,000	28.2
30 – 34	94	54,000	27,000	404,000	38.0
35+	59	$50,000	$28,000	$434,000	$25.6
Total	729	n/a	n/a	n/a	$155.5
All Pension Average	n/a	$48,000	$16,000	$213,000	n/a

*Years of Service includes service transferred from other plans.

OTHER

Portability Provisions

Portability allows pension plan members to carry pension rights from one plan to another. For instance, members of the Public Service Pension Plan may carry their years of pensionable service and contributions to a new plan at a different place of employment if the new plan has a portability agreement with the Public Service Pension Plan. Employers who allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers."

Members of the Public Service Pension Plan who have made contributions to another pension plan should inquire about portability agreements.

In 1999, there were 62 reciprocal transfers in from other pension plans totalling $3.5 million and 13 transfers out totalling $0.5 million.

Purchase of Additional Service

It may be possible for plan members to purchase additional service. This service may include:

- approved leaves of absence
- arrears contributions
- non-contributory services, or
- reinstatement of refunded contributions.

The number of purchases of additional service decreased 14% from 1998 to 1999.

MEMBER AND EMPLOYER PURCHASES OF ADDITIONAL SERVICE

	Number of Purchases		Value of Purchases ($ Thousands)	
	1999	1998	1999	1998
Approved Leaves of Absence	357	315	$ 1,033	$615
Arrears Contributions	90	64	438	835
Non-contributory Service	1,838	2,142	12,915	11,416
Reinstatement of Refunded Contributions	533	768	7,081	10,192
Total	2,818	3,289	$21,467	$23,058

PENSIONS GRANTED, BY TYPE 1990–1999

	Normal*	Death*	Disability+	Deferred	Total
1990	447	40	90	69	646
1991	464	42	91	57	654
1992	533	42	88	69	732
1993	520	43	83	50	696
1994	574	27	66	73	740
1995	684	27	83	86	880
1996	862	28	98	100	1,088
1997	1,049	27	172	73	1,321
1998	1,741	21	293	123	2,178
1999	729	40	77	135	981

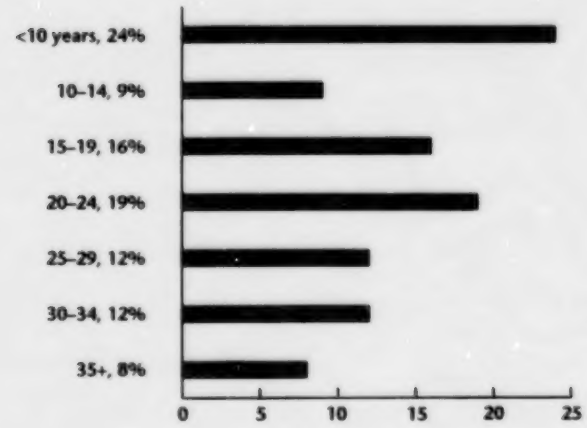
*Pensions granted do not include any pension continued to a beneficiary upon the death of a pensioner.
+Includes members on long-term disability who became eligible for a regular pension.

PUBLIC SERVICE NORMAL PENSIONS GRANTED IN 1999, AGE AT RETIREMENT

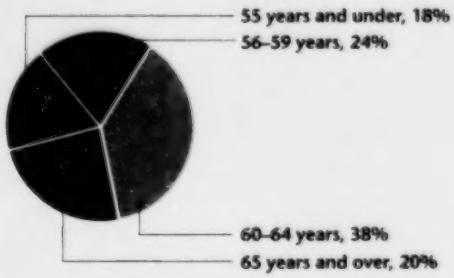
For those whose normal retirement age was 65
Subdivided by years of service and age at retirement

Years of Service	55	56–59	60–64	65	Total
<10 yrs	18	35	76	34	163
10 – 14	12	14	20	20	66
15 – 19	16	21	50	23	110
20 – 24	18	27	48	32	125
25 – 29	21	19	30	14	84
30 – 34	18	26	29	10	83
35 +	21	19	9	6	55
Total	124	161	262	139	686

PERCENTAGE OF NORMAL PENSIONS BY YEARS OF SERVICE (NORMAL AGE 65)



PERCENTAGE OF NORMAL PENSIONS BY AGE (NORMAL AGE 65)

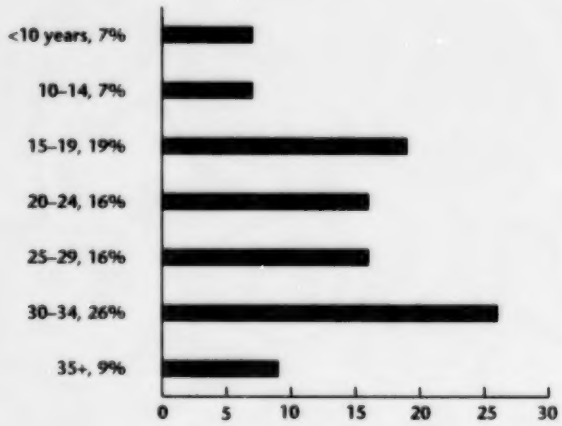


PUBLIC SERVICE NORMAL PENSIONS GRANTED IN 1999, AGE AT RETIREMENT

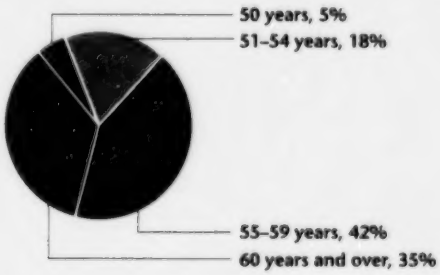
For those whose normal retirement age was 60
Subdivided by years of service and age at retirement

Years of Service	50	51–54	55–59	60	Total
<10 yrs	–	2	1	–	3
10 – 14	–	1	1	1	3
15 – 19	2	–	3	3	8
20 – 24	–	2	1	4	7
25 – 29	–	–	4	3	7
30 – 34	–	2	5	4	11
35 +	–	1	3	–	4
Total	2	8	18	15	43

PERCENTAGE OF NORMAL PENSIONS BY YEARS OF SERVICE (NORMAL AGE 60)



PERCENTAGE OF NORMAL PENSIONS BY AGE (NORMAL AGE 60)



Report of the Auditor General of British Columbia

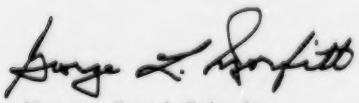
To the Superannuation Commissioner, and

To the Minister of Finance and Corporate Relations,
Province of British Columbia:

I have audited the statement of net assets available for benefits of the *Public Service Pension Plan* as at March 31, 1999 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Superannuation Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Public Service Pension Plan* as at March 31, 1999 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Victoria, British Columbia
June 28, 1999

BRITISH COLUMBIA

IN REPLY REFER TO

PUBLIC SERVICE PENSION PLAN

ADMINISTRATOR'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Public Service Pension Plan were prepared by the Superannuation Commission, the administrator of the plan. The commission is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Annual Report for the plan conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Superannuation Commission maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the plan. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The Auditor General of British Columbia has performed an independent audit of the financial statements of the plan in accordance with generally accepted auditing standards. The resulting audit opinion is set out in the Report of the Auditor General attached to these financial statements.

JOHN W. COOK, F.C.I.A.,
Superannuation Commissioner

P. LOUISE YOUNG, C.A.,
Executive Director, Plan Finance
Superannuation Commission

June 28, 1999

Superannuation Commission
Office of the Commissioner
Mailing Address:
PO Box 9460 Stn Prov Govt
Victoria BC V8W 9V8
Telephone: (250) 387-8201
Facsimile: (250) 387-4199
Location:
2995 Jutland Road, Victoria

PUBLIC SERVICE PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

March 31	1999	1998
ASSETS		
Investments (Note 3)	$ 10,297,716	$ 9,989,725
Receivables		
Members' contributions	4,636	4,010
Employers' contributions, net of rebate (Note 8)	2,674	883
Accrued interest and dividends	2,439	2,256
Due from MLA Superannuation Account	259	12
Other	1,386	1,817
	11,394	8,978
Prepaid expenses	1,306	696
Cash	213	504
Total Assets	10,310,629	9,999,903
LIABILITIES		
Accounts payable and accrued expenses	5,560	11,970
Total Liabilities	5,560	11,970
NET ASSETS AVAILABLE FOR BENEFITS	$ 10,305,069	$ 9,987,933

Obligations for Accrued Pension Benefits for Accounting Purposes (Note 7)

The 11 accompanying notes are an integral part of these financial statements.

John W. Cook, F.C.I.A.,
Chair, Public Service Pension Advisory Board,
Superannuation Commissioner

P. Louise Young, C.A.,
Executive Director, Plan Finance
Superannuation Commission

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended March 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 1999	1998
INCREASE IN ASSETS					
Net investment income (Note 4)	$ 237,487	$ 47,942	$ -	$ 285,429	$ 1,829,380
Contributions (Note 5)					
Employers, net of rebate (Note 8)					
Province of British Columbia	101,018	12,598	-	113,616	118,084
Other	60,712	7,883	-	68,595	64,919
Supplemental benefits (Note 8)	-	-	11,421	11,421	8,941
	161,730	20,481	11,421	193,632	191,944
Members	113,360	28,865	-	142,225	138,139
	275,090	49,346	11,421	335,857	330,083
Transfers from other plans	2,848	633	-	3,481	9,619
Transfers from MLA Superannuation Account (Note 9)	188	60	-	248	25
Total Increase in Assets	515,613	97,981	11,421	625,015	2,169,107
DECREASE IN ASSETS					
Pension benefits paid					
Contributory	211,148	-	126	211,274	203,143
Indexing supplements	55,590	-	-	55,590	54,152
	266,738	-	126	266,864	257,295
Termination benefits paid	15,616	5,782	3,164	24,562	40,089
Transfers to other plans	412	118	-	530	718
Pensioner group benefits (Note 10)	-	-	8,033	8,033	7,254
Administration costs (Note 9)	7,792	-	98	7,890	7,518
Total Decrease in Assets	290,558	5,900	11,421	307,879	312,874
INCREASE IN NET ASSETS BEFORE TRANSFERS	225,055	92,081	-	317,136	1,856,233
Account transfers (Note 6)	(88,020)	88,020	-	-	-
INCREASE IN NET ASSETS	137,035	180,101	-	317,136	1,856,233
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	8,155,488	1,832,445	-	9,987,933	8,131,700
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 8,292,523	$ 2,012,546	$ -	$ 10,305,069	$ 9,987,933

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN

The Public Service Pension Plan (the plan) is governed by the *Pension (Public Service) Act* (the act) and related regulations. The following brief description of the plan is provided for general information only. For more information refer to the act.

a) General

The plan is a contributory defined benefit pension plan open to eligible employees of the Public Service and certain crown corporations, agencies, institutions and other employers to which the act applies.

b) Roles and Responsibilities

The Superannuation Commissioner is responsible for administering the act and for administering the Public Service Pension Plan. The Public Service Superannuation Fund is the trust fund in which contributions accumulate and are invested to pay current and future pension benefits. In carrying out his duties, the commissioner is supported by, and acts as chief executive officer to, the Superannuation Commission, a division of the Ministry of Finance and Corporate Relations of British Columbia.

The Public Service Pension Advisory Board was established under the act to make recommendations to government regarding, among other things, the act and its regulations, changes in benefits, funding policy, contribution rates and the administrative budget of the commission. The board is responsible for preparation of the annual report of the plan, for reviewing and making recommendations to the Ministry of Finance and Corporate Relations on investment policy, and for providing direction to the commissioner on the application of plan rules. The commissioner is chair of the board.

The Minister of Finance and Corporate Relations serves as trustee for the plan. The Office of the Chief Investment Officer, of the Ministry of Finance and Corporate Relations, is responsible for investment management.

c) Pension Benefits

All members with two years contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

c) Pension Benefits (continued)

- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service equalling 90 or more (age 50 or older and equalling 85 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years). Pensionable earnings is based on the member's highest five-year average salary (HAS). The plan also provides a bridging benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridging benefit is .7% of the lesser of YMPE or the HAS, for each year of the member's pensionable service since January 1, 1966 (when CPP was introduced).

Increases to pension payments are provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6).

At January 1, 1999, pensioners received a full CPI increase of .7% (1998 - 1.6%).

d) Termination and Portability Benefits

Effective January 1, 1998, a terminating member who is eligible for a pension benefit may choose from:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit to a locked-in RRSP, other registered pension plan or similar eligible tax-sheltered plan.

Upon termination, a member who is not eligible for a pension benefit (non-vested), is eligible to receive a refund of his or her own contributions, with interest. A non-vested terminating member may also choose to leave monies on deposit in anticipation of possible future re-entry to the plan. Where there are portability arrangements between the Public Service Pension Plan and other pension plans,

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (continued)

d) Termination and Portability Benefits (continued)

members may be able to carry certain pension rights to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the Public Service Pension Plan.

e) Other Benefits

Supplemental (Note 10), disability and survivor benefits are also available under the plan. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

f) Income Taxes

The plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)* and is not subject to income taxes, except for any supplemental benefits (Note 10) which are provided in addition to the RPP.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the aggregate financial position of the plan as a separate financial reporting entity, independent of the plan's contributing employers and members.

b) Investments

Investments are stated at market value. Market value is derived from external quotations or appraisals. Investment purchases and sales are recorded on trade date.

c) Investment Income

Investment income is recorded on the accrual basis.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

3. INVESTMENTS (Market Value)

	1999			1998
	Basic Account	Inflation Adjustment Account	Total	Total
			($ Thousands)	
Short-term	$ 22,632	$ 65,180	$ 87,812	$ 178,497
Canadian Bonds	3,250,890	755,243	4,006,133	3,623,365
Canadian Equities	2,640,772	602,871	3,243,643	3,565,027
U.S. Equities	927,788	208,438	1,136,226	1,138,370
International Equities	706,245	159,617	865,862	851,444
Mortgages	258,584	58,473	317,057	214,792
Real Estate	370,077	84,191	454,268	367,713
Private Placements	186,715	-	186,715	50,517
	$8,363,703	$1,934,013	$10,297,716	$9,989,725

Pension plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the Office of the Chief Investment Officer. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and in the case of international equities refer to investments in Europe, Australia and the Far East.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of Canadian diversified income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

4. INVESTMENT INCOME

	1999			1998
	Income Allocation	Current Period Change In Market Value	Total	Total
			($ Thousands)	
Basic Account				
Short-term	$ 6,002	$ 135	$ 6,137	$ 6,715
Canadian Bonds	183,643	25,941	209,584	341,717
Canadian Equities	46,363	(339,800)	(293,437)	680,156
U.S. Equities	18,043	177,946	195,989	308,957
International Equities	13,761	61,207	74,968	137,707
Mortgages	15,258	537	15,795	11,301
Real Estate	17,758	19,575	37,333	50,625
Private Placements	1,803	(1,473)	330	(1,979)
	$302,631	$ (55,932)	$ 246,699	$1,535,199
Investment Management Costs			(9,212)	(8,683)
Net Investment Income			$ 237,487	$1,526,516

	1999			1998
	Income Allocation	Current Period Change In Market Value	Total	Total
			($ Thousands)	
Inflation Adjustment Account				
Short-term	$ 2,016	$ 43	$ 2,059	$ 2,082
Canadian Bonds	40,330	1,440	41,770	62,076
Canadian Equities	10,278	(75,048)	(64,770)	138,616
U.S. Equities	3,932	39,141	43,073	60,869
International Equities	3,044	13,507	16,551	28,533
Mortgages	3,069	126	3,195	2,244
Real Estate	3,801	4,133	7,934	10,206
	$66,470	$(16,658)	$ 49,812	$ 304,626
Investment Management Costs			(1,870)	(1,762)
Net Investment Income			$ 47,942	$ 302,864
Total Investment Income			$296,511	$1,839,825
Total Investment Management Costs			(11,082)	(10,445)
Total Net Investment Income			$285,429	$1,829,380

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

4. INVESTMENT INCOME (continued)

The income allocation portion of investment income represents pooled investment portfolio income attributable to the pension fund, as a unitholder, and as calculated by the Ministry of Finance and Corporate Relations, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

5. CONTRIBUTIONS

	1999				1998
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
				($ Thousands)	
Members' contributions					
Regular	$101,007	$27,985	$ -	$128,992	$125,216
Arrears	99	3	-	102	153
Purchase of non-contributory service	7,550	407	-	7,957	5,699
Leave of absence	422	106	-	528	555
Refund reinstatement	4,282	364	-	4,646	6,516
Total Members	113,360	28,865	-	142,225	138,139
Employers' contributions					
Province of British Columbia					
Regular	95,399	12,086	-	107,485	109,355
Arrears	72	11	-	83	425
Purchase of non-contributory service	2,788	405	-	3,193	4,602
Leave of absence	364	56	-	420	26
Refund reinstatement	2,395	40	-	2,435	3,676
	101,018	12,598	-	113,616	118,084
Other employers					
Regular	58,791	7,701	-	66,492	63,513
Arrears	222	31	-	253	257
Purchase of non-contributory service	1,625	140	-	1,765	1,115
Leave of absence	74	11	-	85	34
	60,712	7,883	-	68,595	64,919
Supplemental benefits	-	-	11,421	11,421	8,941
Total Employers	$161,730	$20,481	$11,421	$193,632	$191,944
Total Contributions	$275,090	$49,346	$11,421	$335,857	$330,083

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

6. ACCOUNT TRANSFERS

	1999		1998	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
	($ Thousands)			
Present value of current indexing supplements	$ 15,404	$(15,404)	$ 32,973	$(32,973)
Indexing of deferred pensions	2,868	(2,868)	1,478	(1,478)
Excess interest	(106,290)	106,290	(124,160)	124,160
Other	(2)	2	-	-
	$ (88,020)	$ 88,020	$(89,709)	$ 89,709

A separate account is maintained for funding current and future indexing supplements. This Inflation Adjustment Account is funded through a portion of ongoing contributions from employers and members (Note 8), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the Inflation Adjustment Account to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the Inflation Adjustment Account to the Basic Account.

Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid (approximately $2.3 billion of assets for 1999, $2.2 billion for 1998). The excess interest rate of return is determined by taking the difference between the actual market rate of return and the rate of return used by the actuary (7.3%) in valuing the plan's liabilities. The actual rate of return is based on a five-year average. The calculated excess interest rate of return for fiscal 1999 is 4.66%. Should the excess interest rate calculation ever result in a negative return, the negative return will be carried forward and offset against future excess returns.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

7. OBLIGATIONS FOR ACCRUED PENSION BENEFITS FOR ACCOUNTING PURPOSES

For accounting purposes, the plan actuary values pension assets as at, and pension liabilities accrued to, the financial statement date. An actuarial valuation is performed every three years. The latest valuation was made as at March 31, 1996 by Eckler Partners Ltd. At that valuation, net assets were $5.43 billion (1993 - $4.23 billion) and liabilities for accrued pension benefits were $5.22 billion (1993 - $4.37 billion), resulting in a net surplus of $209 million (1993 - $140 million unfunded liability).

The present value of liabilities for accrued pension benefits was determined using the projected benefit method prorated on service. Accrued basic pension benefits include all indexing granted to the date of valuation, but not future indexing. The underlying basis for the net asset valuation is a five-year investment market smoothing.

Actuarial liabilities and net assets reflect the following long-term actuarial assumptions:

- annual investment return 7.3%
- annual salary escalation rate 4.8%

The 1996 valuation results were extrapolated to March 31, 1999 using the same long-term assumptions. The extrapolated net assets are $6.81 billion and the liabilities are $6.54 billion, with a resulting extrapolated surplus of $269 million.

In the short term, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation. While the actual experience is recognized when the complete actuarial valuation takes place every three years, these variances can limit the accuracy of short-term extrapolations made between valuation dates. The next formal actuarial valuation will be as at March 31, 1999, for inclusion in the March 31, 2000 financial statements.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

8. FUNDING

a) Contributions

Basic Account

Members contribute to the Basic Account 4.25% of salary up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($37,400 in 1999) and 5.75% of salary above that.

Effective July 1, 1997, employers contribute to the Basic Account 7.75% of salaries up to the YMPE and 9.25% of salaries above that. However, as a result of the 1996 actuarial surplus, a $24 million annual reduction in total employer contributions was also implemented effective April 1, 1996 (approximately equivalent to 1% of salaries).

The combined member and employer statutory contribution rate effective July 1, 1997, for salaries above the YMPE is 15.0% (Note: the effect of the $24 million contribution reduction is to approximately decrease the combined rate on a temporary basis, to 14%).

Inflation Adjustment Account and Supplemental Benefits Account

Members contribute 1.25% of salaries to the Inflation Adjustment Account. Employers contribute 1.25% of salaries to the Inflation Adjustment Account, less amounts allocated to the Supplemental Benefits Account (1999 - $8.3 million; 1998 - $7.9 million) (see Note 10).

b) Actuarial Valuation for Funding Purposes

An actuarial valuation of the plan's assets and pension obligations is performed every three years to determine an appropriate combined employer and member contribution rate to fund the plan. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on a level contribution method. Using this method, the contribution rate consists of two elements:

- a level rate which will fully pay for benefits earned by typical new entrants to the plan; and
- a level rate which will maintain the plan's unfunded actuarial liability or surplus as a constant percentage of employer payroll, assuming future contributions are also made at the above rate.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

8. FUNDING (continued)

b) Actuarial Valuation for Funding Purposes (continued)

The most recent actuarial valuation for funding purposes was prepared as at March 31, 1996. This valuation disclosed a surplus for basic pension benefits of $222 million (1993 - $193 million unfunded liability), assuming future contributions at the existing statutory rates.

As a result of this valuation, the actuary's calculated level contribution rate for basic pension benefits was 13.7% of employer payroll, for salaries above the YMPE. This rate is 1.3% of employer payroll lower than the combined employee and employer statutory rate of 15.0% of salaries for basic pension benefits. A lower statutory contribution rate was not implemented. However, the act provides that should a surplus arise, it may be amortized through reduction of employer contributions over not less than 15 years. As a result, a $24 million annual reduction in total employer contributions was implemented effective April 1, 1996.

The following table shows a key indicator of the financial health of a pension plan, the unfunded actuarial liability (UAL)/surplus as a percentage of payroll, for the four most recent actuarial valuations. (Values shown in the table assume future contributions at the statutory rates in place at the time rather than the actuary's calculated rates.)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	(UAL) Surplus (c)	Covered Payroll (d)	(UAL) Surplus as a Percentage of Payroll (c/d)
		($ Billions)			
1987	$4.02	$4.48	$(0.46)	$1.21	(38%)
1990	5.01	5.45	(0.44)	1.39	(32%)
1993	6.90	7.09	(0.19)	1.84	(10%)
1996	8.21	7.99	0.22	2.21	10%

c) Funding Policy

July 1994 changes to the *Pension (Public Service) Act* affirmed the level contribution method as the funding policy for the plan. This policy calls for any increases in a UAL as a percentage of employer payroll from one valuation to the next to be amortized, by way of an increase in employer contributions, over not more than 15 years. If a surplus arises, it may be amortized, by a reduction in employer contributions, over not less than 15 years.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

9. RELATED PARTY TRANSACTIONS

a) Transfers from Members of the Legislative Assembly Superannuation Account

	1999	1998
	($ Thousands)	
Present value of MLA pensions granted	$188	$ -
Contributions for indexing supplements	60	25
	$248	$25

When a Member of the Legislative Assembly (MLA) is granted a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account (the account) to the Public Service Superannuation Fund, and monthly benefits are paid from the fund. Amounts are also transferred to the fund each year to fund the payment of related indexing supplements.

During the year ended March 31, 1999, 1 MLA (1998 - nil) was granted a pension.

b) Administration Costs

Administration costs include general administration costs and actuarial fees. General administration costs incurred by the Superannuation Commission are prorated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan. General administration costs include all salaries, Public Service Pension Advisory Board expenses, and other operating and administration costs.

c) Investment Management Costs

The Office of the Chief Investment Officer (OCIO) has statutory responsibility for managing investments on behalf of the plan and uses internal and external investment managers for this purpose. Total investment management fees for 1999 were $11.08 million. Of this amount, $1.01 million was charged for OCIO's internal investment management services (1998 - total fees $10.45 million; internal management services $1.30 million).

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1999

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account provides for the payment and funding of supplemental benefits, such as contributions and benefits which exceed Revenue Canada limits, and group dental benefits for pensioners. Pensioner dental benefits are fully funded by employer contributions.

11. YEAR 2000 SYSTEMS ISSUE

The Year 2000 systems issue arises because many date sensitive computer systems use two digits rather than four to identify a year and, therefore, may not correctly recognize the Year 2000. As a result, if all related system problems are not fully identified and fixed, the impact on operations and financial reporting could range from minor errors to system failures and could occur before, on or after January 1, 2000. The Superannuation Commission, whose computer systems support the administration of the Public Service Pension Plan, is making all reasonable efforts to ensure that the Year 2000 issue is addressed, including working with other government departments, employers and suppliers to do so.

The commission has reviewed all its computer systems for year 2000 problems and work is well underway to modify or replace all systems which are not already year 2000 ready. The two main computerized systems that support pension administration are the pension payment system and the contributor system. The pension payment system was designed with four digit years, with the Year 2000 in mind. Therefore problems are not anticipated with this system. However, as a precautionary measure, this system is also being tested. The contributor system is on schedule for replacement with a Year 2000 ready system in 1999, and the existing system has been modified and tested to be Year 2000 ready as a contingency measure.

The commission is making every effort to identify and resolve the Year 2000 issue. However, because of the pervasive nature of the problem, it is not possible to be absolutely certain that all aspects of the problem affecting the commission, including those related to the efforts of employers, suppliers or other third parties will be resolved. The commission, however, is developing contingency plans to ensure that critical services continue, such as the payment of pensions, should an unanticipated system failure occur.